

## Message Text

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ACTION ARA-14

INFO OCT-01 ISO-00 SOE-02 AID-05 CEA-01 CIAE-00  
COME-00 DODE-00 EB-08 DOE-15 H-02 INR-10 INT-05  
L-03 NSAE-00 NSC-05 OMB-01 PM-05 ICA-20 OES-09  
SP-02 SS-15 STR-07 TRSE-00 ACDA-12 AGRE-00 /142 W  
-----001742 080627Z /20

R 062024Z SEP 78  
FM AMEMBASSY SANTIAGO  
TO SECSTATE WASHDC 405

UNCLAS SANTIAGO 6734

EO 11652: NA  
TAGS: ENRG, CI  
SUBJ: PETROLEUM PRICES PARTIALLY DECONTROLLED

1. ANNOUNCED ON AUGUST 31 AND EFFECTIVE SEPTEMBER 1, THE GOC REMOVED PRICE CONTROLS ON ALL PETROLEUM PRODUCTS EXCEPT LOW OCTANE GASOLINE (REGULAR), LIQUIFIED GAS, AND KEROSENE SOLD AT SERVICE STATIONS (BUT NOT FOR HOME DELIVERY). LOWER INCOME PERSONS ARE RELATIVELY MORE INTENSIVE USERS OF EACH OF THESE PRODUCTS, AND PARTICULARLY OF KEROSENE FOR HOME HEATING IN CHILE. THE GOC ALSO ENDED THE MONOPOLY OF ENAP, THE STATE-OWNED REFINERY, BY DECLARING ALL REFINED PETROLEUM PRODUCTS ELIGIBLE FOR IMPORTATION.

2. A MINISTRY OF FINANCE SOURCE TOLD US THAT THE MOVE ITSELF AND ITS TIMING HAVE NO SPECIAL SIGNIFICANCE OTHER THAN AS A NATURAL EVOLUTION OF CHILE'S FREE MARKET ECONOMIC POLICY. PRICE AND IMPORT CONTROLS ARE CONSIDERED COMPETITIVE DISTORTIONS THAT THE GOC CONTINUES TO REMOVE SYSTEMATICALLY. AS PRODUCT AFTER PRODUCT HAS BEEN ELIMINATED FROM THE ONCE EXTENSIVE LIST OF ITEMS SUBJECT TO GOVERNMENT-SET PRICE CEILINGS, ONLY SIX OTHER PRODUCTS OR CATEGORIES CURRENTLY REMAIN UNDER PRICE CONTROL. THESE ARE: SUGAR, BEER, CIGARETTES, DETERGENTS, CHIPRODAL PRODUCTS (POWDERED MILK  
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AND BABY FOODS), AND IMPORTED PHARMACEUTICALS SIMILAR TO THOSE MADE DOMESTICALLY.

3. THE GOC SOURCE WENT ON TO SAY THAT ECONOMIC POLICY MAKERS ARE HOPEFUL THAT REMOVING THESE PETROLEUM PRODUCTS FROM CONTROL WILL INDUCE OTHER INTERNATIONAL COMPANIES TO INVEST AND DISTRIBUTE PETROLEUM PRODUCTS IN CHILE. HE WOULD

NOT SPECULATE, HOWEVER, ON WHEN PRICES WOULD BE FREED ON THE REMAINING THREE PETROLEUM PRODUCTS STILL SUBJECT TO PRICE CONTROL. AN INDUSTRY SOURCE EXPECTS THIS MOVE BEFORE THE END OF THE YEAR, IF THIS FIRST STAGE IS NOT ECONOMICALLY DISRUPTIVE.

4. AS AN EXAMPLE OF FREE COMPETITION AT WORK, THE PRICE OF PREMIUM GASOLINE AT THE PUMPS INCREASED FROM 9 PESOS PER LITER ON AUGUST 31 TO A RANGE OF 10.6 TO 12 PESOS IN SEPTEMBER 1. A STABILIZED PRICE OF ABOUT 10.5 PESOS PER LITER IS EXPECTED (\$1.20 PER GALLON).

5. FINANCE MINISTER DE CASTRO COMMENTED TO EMBOFFS ON SEPTEMBER 4 THAT THE FINAL ELIMINATION OF PRICE CONTROLS DEPENDS ON A GRADUAL DECREASE IN THE LEVEL OF GOVERNMENT SUBSIDY. AS SOON AS CONTROLLED PRICES APPROXIMATE INTERNATIONAL MARKET PRICES THE GOC WILL REMOVE THE REMAINING CONTROLS. TO DO SO PRECIPITOUSLY, DE CASTRO ADMITTED, WOULD HAVE AN ADVERSE EFFECT ON THE RATE OF INFLATION WITH NEGATIVE CONSEQUENCES AMONG LOWER INCOME GROUPS.

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## Message Attributes

**Automatic Decaptioning:** X  
**Capture Date:** 01 jan 1994  
**Channel Indicators:** n/a  
**Current Classification:** UNCLASSIFIED  
**Concepts:** PETROLEUM, PRICES  
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**Copy:** SINGLE  
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**Decaption Date:** 01 jan 1960  
**Decaption Note:**  
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**Disposition Approved on Date:**  
**Disposition Case Number:** n/a  
**Disposition Comment:**  
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**Drafter:** n/a  
**Enclosure:** n/a  
**Executive Order:** N/A  
**Errors:** N/A  
**Expiration:**  
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**Subject:** PETROLEUM PRICES PARTIALLY DECONTROLLED  
**TAGS:** ENRG, CI  
**To:** STATE  
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**Review Markings:**  
Sheryl P. Walter  
Declassified/Released  
US Department of State  
EO Systematic Review  
20 Mar 2014  
**Markings:** Sheryl P. Walter Declassified/Released US Department of State EO Systematic Review 20 Mar 2014